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July 12, 2006

The Honorable Henry M. Paulson, Jr.
Secretary of Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary:

I very much appreciated your phone call. Like you, I hope that we will have the opportunity to work together on a bipartisan basis. In my view, a bipartisan approach is required given the serious challenges that this country is facing both here and abroad.

As you are aware, the Administration's mid-session review shows that the current projections of Social Security and Medicare payroll taxes for this calendar year (2006) are \$6 billion less than the amount projected six months ago. The mid-session review does not explain the reason for this reduction in payroll taxes. But, a simple comparison of the economic assumptions used for the mid-session review with the economic assumptions used for the February budget documents clearly shows the reason. Now the Administration is projecting that wage and salary income for this calendar year will be approximately \$71 billion less than what was projected merely six months ago.

The much heralded "good news" does not appear to be good news for the overwhelming number of Americans who rely on wage and salary income. I am hopeful that you could explain the factors that you believe caused this decline in projected wage and salary income, and whether it is part of a long-term trend. Increasingly, I fear that the benefits of economic growth are bypassing the average American who relies on his or her paycheck, not investment income.

Press reports indicate that corporations are sitting on unprecedented levels of cash reserves. Corporations appear to be hesitant about investing those reserves in plant and equipment. Your mid-session review suggests that the level of corporate investment in plant and equipment will be less than what you projected merely six months ago. As you are aware, the mid-session review stated that part of the increase in corporate tax receipts was due to reduced depreciation write-offs. Those reduced depreciation write-offs were relative to what was projected in February. Such a reduction could occur only if the projected level of corporate investments is lower than the level projected six months ago. I am hopeful that you will be able to quantify the change in projections of corporate investments, the factors that contributed to the new projections, and whether they are part of a long-term trend.

Many are suggesting that the mid-session review proves that the President's tax cuts work. I find that argument inconsistent with the fact that the mid-session review shows lower wage and salary income and lower corporate investments than what was projected six months ago.

I believe that one of the most important responsibilities of the Treasury Department is to provide accurate, unbiased economic analysis. One of the reasons why your predecessor was not as successful as he might have been was the fact that he did not insist on providing that type of analysis. I am hopeful that you will take a different approach and I look forward to your response to this letter.

Sincerely,

Charlie

Charles B. Rangel
Ranking Democrat